Politics blamed for lack of reform

No agreement: Michel Wurth, president UEL; Ernst Wilhelm Contzen, chairman ABBL; Jean-Claude Reding, general secretary OGBL

Photo: Steve Eastwood

Despite much hype and raised expectations, the series of tripartite meetings over the autumn produced neither a consensus nor substantial reform. This is the second time in 18 months that the government was forced to act alone, but chose only to take small steps. With the indexation proposals running until the 2014 general election, there is little prospect of much change before then. The prime minister suggested that more fundamental reform had not been politically possible.

A union boycott led to the final tripartite meeting scheduled for 16th December being called off, leaving the government to take "unilateral" decisions. The unions were upset at a list of demands published by the employers' umbrella group the Luxembourg Employers Union (UEL). This called for a two year moratorium on salary indexation and an indefinite freeze on the minimum wage. They also wanted greater flexibility for fixed term employment contracts and looser restrictions on how the working week is structured, allowing for 54 hour weeks in some circumstances.

Public battle of words

The UEL said these changes would help them hire more people to combat rising unemployment, particularly amongst the young. "There is no durable social model without a strong economy, efficient labour market and solid public finances," said UEL president Michel Wurth. He pointed out that Luxembourg's minimum wage wage is higher than median salaries in France, meaning low skilled residents have more competition each time there is an increase. The OGBL president Jean-Claude Reding called the UEL's list of demands "sabotage" adding that "the index is part of the most important fundamentals of the Luxembourg system."

The public war-of-words had already been hotting up but this proved to be the final provocation/excuse the unions were seeking to pull out. Both unions and employers subsequently accused the other of undermining the tripartite with the government deciding it would make its own announcement.

Juncker keeps the faith

Announcing the changes (see box) Jean-Claude Juncker, the prime minister, said he "understood" demands such as those from the construction industry for more flexible working rules. However, such change should be negotiated within the industry, he said, adding that legislation should only be a last resort. Yet for the bigger issue "the government has no intention of distancing itself from the principle of the index" he said, apparently rejecting the argument that change is needed. He said the proposed changes to the index would give predictability and would represent substantial cost-savings for the private and public sectors. The removal of drink and tobacco from the index basket was for "obvious health reasons" said Juncker, but this has led to speculation of an imminent increase in taxes.

Despite this being the third failure of the tripartite in five years, Juncker told the Chamber of Deputies that although "the tripartite has the flu. I will not allow social dialogue to die from it." He saw "a temporary disagreement between the social partners" saying dialogue would continue at "all levels."

Unions protest

Initially muted, the two main unions took until the New Year to rail against the proposals. The LCGB's new general secretary Patrick Dury set the tone, saying he could accept the withdrawal of alcohol and tobacco from the index basket and a delay in 2012, but only if there was a compensatory bonus paid. He said he could not agree with the plans for 2013 and 2014 and was fully against any changes regarding the treatment of oil prices. The public

Reform package

Salary indexation dates: Rather than all salaries going up each time prices have risen by 2.5% (with the next one scheduled for March), increases will be scheduled for 1st October in 2012, 2013 and 2014.

Indexation basket: Tobacco and alcohol products are to be removed "definitively" from the basket of goods used to calculate the index. Until 2015, a maximum limit will be put on the influence of transportation oil price increases on the index. This limit is to be negotiated by the tripartite. Heating oil will be taken fully into account.

Price control: Government will seek to limit the increase of administrated prices (transport, retirement homes, sewage...) and will talk to the communes about more "social" pricing for water. Increase in the range of some medical bills that can be reimbursed, particularly for expensive dental treatments.

New child benefits: Lower income earners will receive 300 euros worth of book tokens and a 500 euro cash payment per child every year. For example, families with two children earning less than 32,000 euros per year will be eligible.

Lower social security charges: The higher payments by blue collar workers will be phased out a year earlier than planned. The 2.1% salary surcharge paid by blue collar workers in 2011 will be cut to 1% for this year and will be abolished in 2013.

Employment subsidy: Hiring an unemployed person registered with ADEM will allow the employer to claim back that part of the salary above the minimum wage on the condition that the job is "durable".

Flexible contracts: it will be possible to offer multiple fixed term contracts (CDD) to high salary earners. The limit of two such contracts will be maintained otherwise.

Housing: 9,000 more subsidised homes will be built. Four new shelters for the homeless will be opened.

More talks: The government will encourage talks towards more flexible working times in some sectors and the development of an "employment pact" to keep older people in work.

sector CGFP had been more forthright, immediately criticising any change to indexation. The unions estimate the proposed changes to the index will equate to a 5-8% loss of earnings

Employers disappointed

The UEL director Pierre Bley pointed out that the change to indexation was insufficient to close the cost gap with neighbours and he called for the discussion on working hours flexibility to be opened up to all sectors, not just construction. He said he hoped the plans to create 9,000 social rented housing units would help to take the pressure off wages, but wondered how this target would be achieved in excess of existing plans for new housing. Fedil called the package "largely insufficient" to address competitiveness, saying the change in the CDD for higher salaries will have very little impact, even if it is a positive move.

Politics not conducive

Juncker was asked why the changes were so mild in an interview in the Luxemburger Wort on 30th December. He suggested that he was held back in his ambitions by the political realities: "I can only carry out reform with a coalition partner that is ready for such steps." The difficulty of forcing though reform is highlighted by the on-going arguments and delays over the fine details of the reform of public sector salaries.

So does he agree with Luc Frieden, his finance minister, who recently called for fundamental reform? While Juncker said he did agree, he added that workers needed to be protected too. Then again, on 28th December he told the Télécran: "The unions give the impression that they are not willing to face the crisis with all its implications, while the employers often give simple answers to complicated questions."

Asked by the Wort if the eurozone crisis had diverted him from Luxembourg politics, he said he could not deny it but said that the health of the single currency was vital for the country. But as Yves Mersch pointed out in December, although Juncker is keen to give these lessons in Brussels, he appears to forget them on his return to Luxembourg.

Text: Stephen Evans